Dr. Thomas Gitzel · Chief Economist

Our View on Currencies

Edition April and May 2025

The dollar euphoria is over

The dollar has lost some of its luster. The Trump administration's import tariffs could cause significant damage to the US itself, it is now recognized. But something else is at play: after the Covid pandemic, the US Federal Reserve began raising interest rates earlier and more aggressively than most other major central banks. This gave the dollar a significant interest rate advantage.

Finally, energy prices skyrocketed when Russia invaded Ukraine in 2022. Energy importers like Europe were put at a disadvantage relative to the energy-self-sufficient US. The global dominance of the technology sector, which led to the outperformance of the US stock market, ultimately coined the term “American exceptionalism”.

It is now clear that even the US tech sector is not immune to a correction and that high interest rates could be detrimental to further economic development.

Meanwhile, the EU's energy imports have halved from their 2022 peak. At the same time, the US has distanced itself from its position as a protective power.

According to US economist Barry Eichengreen, security alliances play just as important a role as economic fundamentals in the choice of a reserve currency. If these alliances were to disintegrate, there would be fewer reasons to hold dollars, Eichengreen says. This could harm the dollar in the long term. This argument is based on very long-term developments and is less relevant in the short term. However, it makes it clear that sentiment in the currency markets could change dramatically in the coming months – in favor of the euro, the yen or even the Swiss franc.

Dr. Thomas Gitzel, **Chief Economist**

Our View on Currencies - Overview

Currency pairs

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Our View on **EUR/USD**

1.05 – 1.12
Expected range
for 3 to 6 months

- The dollar's interest rate advantage is fading into the background
- The Trump euphoria on the financial markets has evaporated
- Concerns about a US recession are spreading

- ECB interest rate cuts that are larger than expected could significantly weaken the euro
- The dollar remains in demand as a safe haven in uncertain times

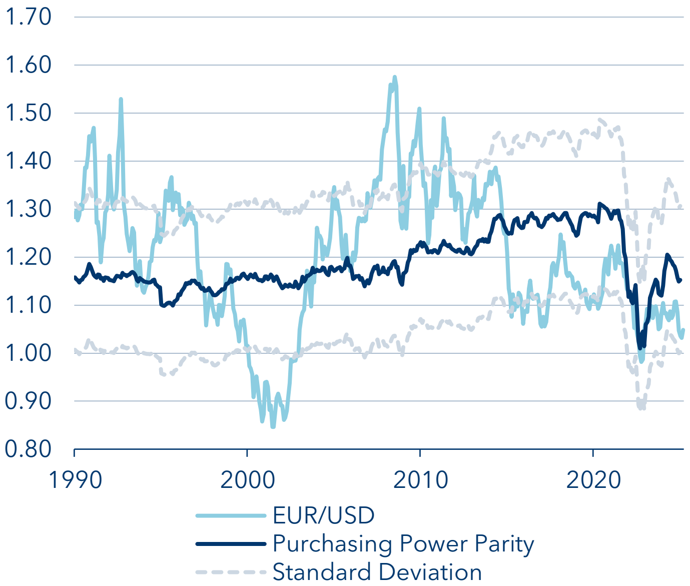
Dollar: the euphoria is gone

When Donald Trump took office, the euphoria was initially great and the dollar benefited. However, the financial markets are increasingly realizing that tariffs harm the US economy itself and, even more so, that a global trade war is not in the interest of internationally active US companies. The dollar therefore had to give up ground. At the same time, however, the disruptive policies of the White House are triggering unimagined dynamics. In Germany, for example, huge spending on defense and infrastructure is no longer intended to save money, but to invest generously. This strengthened the euro. From a technical point of view, however, the euro's recent gains now appear ripe for a short-term correction. Over the next three to six months, the euro's exchange rate may continue to rise due to the change in sentiment. We are adjusting our currency band and now also anticipate exchange rates of over 1.10.

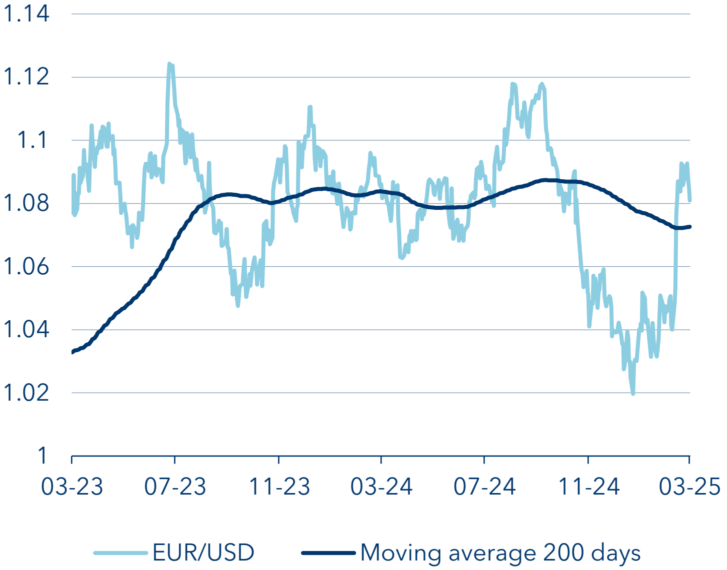
Our View on **EUR/USD**

1.05 – 1.12
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **EUR/CHF**

0.93 – 1.00
Expected range
for 3 to 6 months

- SNB likely to cut key rate to 0%
- ECB must be cautious, price pressures in services sector are high
- Market technicals point to franc weakness

- If the ECB cuts rates more than expected, the euro could weaken significantly
- A sudden flight to safety would weaken the euro against the franc

Euro could still gain a little

The spending programs for defense and infrastructure presented and adopted by the potential new German government helped the euro to gain ground. The European single currency was thus also able to gain against the franc. From a market perspective, the euro is now overbought.

In the short term, this could mean renewed price gains for the franc. In the medium term, however, it is quite conceivable that the euro will continue to gain in value in international comparison. We are therefore adjusting our forecast range upwards and now consider a test of parity to be possible in the next three to six months. The continuing hope of an economic recovery in the eurozone could contribute to this. But monetary policy could also play a role. The ECB is in less of a hurry to cut interest rates further than it was at the beginning of the year.

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0.93 – 1.00
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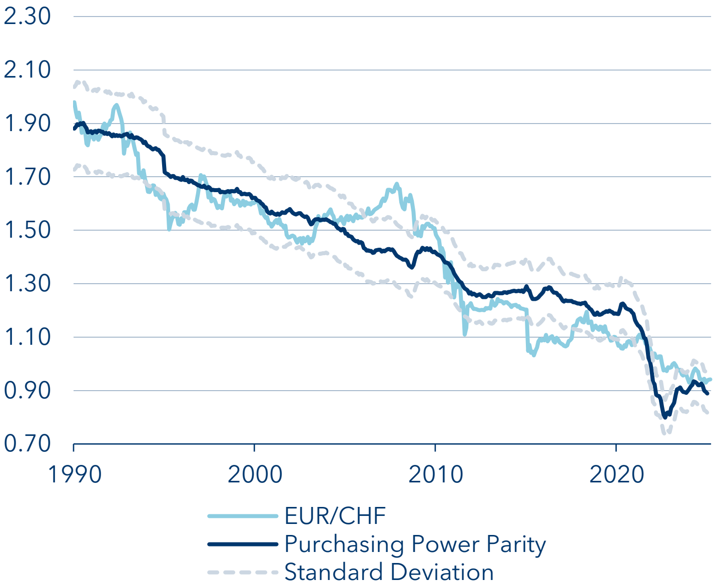
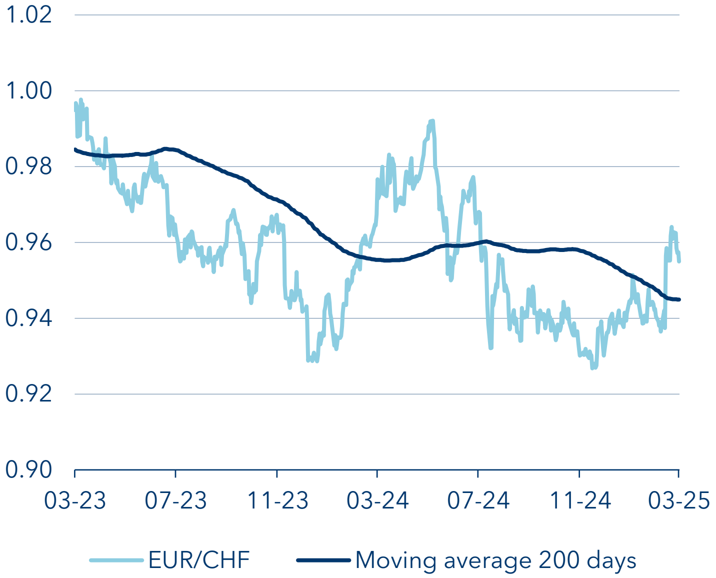


Technical view



Our View on **USD/CHF**

0.83 - 0.92
Expected range
for 3 to 6 months

- US economy itself comes under pressure from punitive tariffs
- Interest rate advantage of the greenback fades into the background
- Purchasing power parity argues in favour of a significantly stronger franc

- The dollar is ahead in times of high uncertainty
- Continued SNB interest rate cuts could put the franc under selling pressure

Dollar weakness could continue

The appreciation of the Swiss franc against the US dollar was overdue, which is also what we had expected. On the one hand, market-related factors pointed to this, and on the other hand, the dollar is overvalued against the franc when adjusted for purchasing power. The movement could continue and push the greenback below the 0.85 mark against the franc.

Weaker US economic data supports this development. For example, the purchasing managers surveyed by S&P Global in the service sector, which is so important for the US, recently gave a thumbs down. But the US stock markets have also made it clear that they think little of the tariff policy of the White House. Against this backdrop, the interest rate advantage of the dollar is also becoming less relevant. If, as expected, even more US tariffs are introduced, the Fed would have to keep interest rates high for longer. But that would put additional pressure on the US economy.

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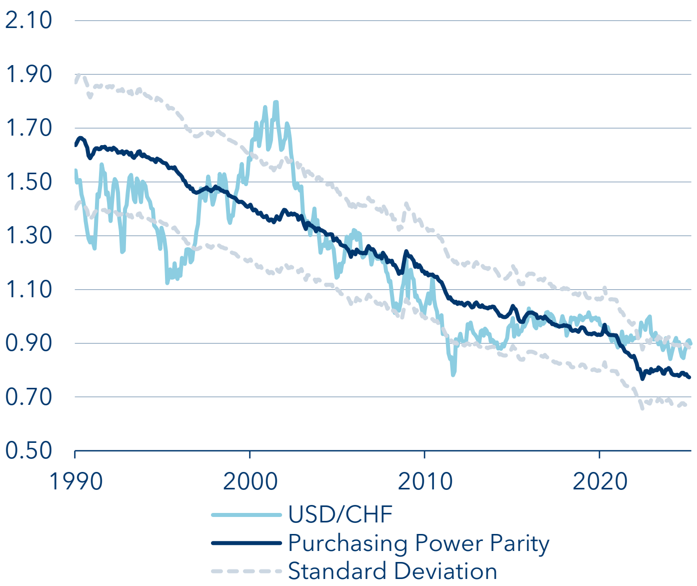
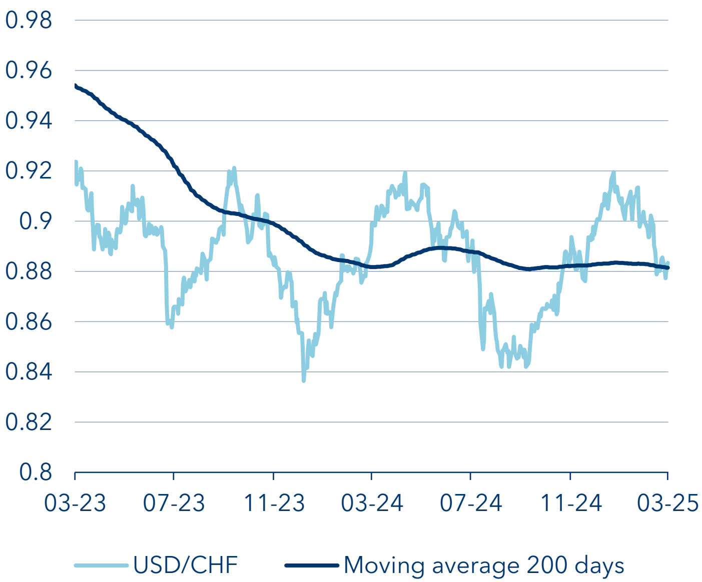


Technical view



Our View on **GBP/USD**

1.26 – 1.35
Expected range
for 3 to 6 months

- The pound is significantly undervalued against the dollar
- Weaker US economic data weighs on the dollar
- Weaker US economic data weigh on the dollar

- Brexit reduces potential growth, which argues against a significant appreciation of the pound
- The pound remains under pressure due to continued relatively high inflation

The UK is moving closer to the EU again politically

Unsurprisingly, the weakness of the dollar was also reflected in the pound. However, another factor is likely to have helped the pound: British Prime Minister Keir Starmer has recently been the linchpin in coordinating further European aid for Ukraine. Starmer also advocated a common European security partnership. This makes the UK's continued rapprochement with the EU obvious. This could also lead to further trade facilitation between the island economy and the EU in the future.

So far, a trade and cooperation agreement has been in place between the two sides of the English Channel, which, although it goes beyond a classic free trade agreement, does not lead to the economic integration that existed during the period of British EU membership. Further deepening would also be positive for the pound.

Our View on **GBP/USD**

1.26 – 1.35
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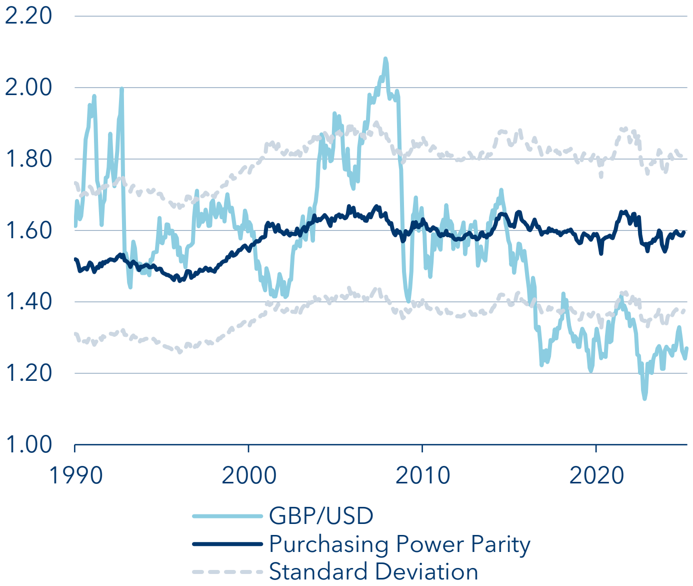
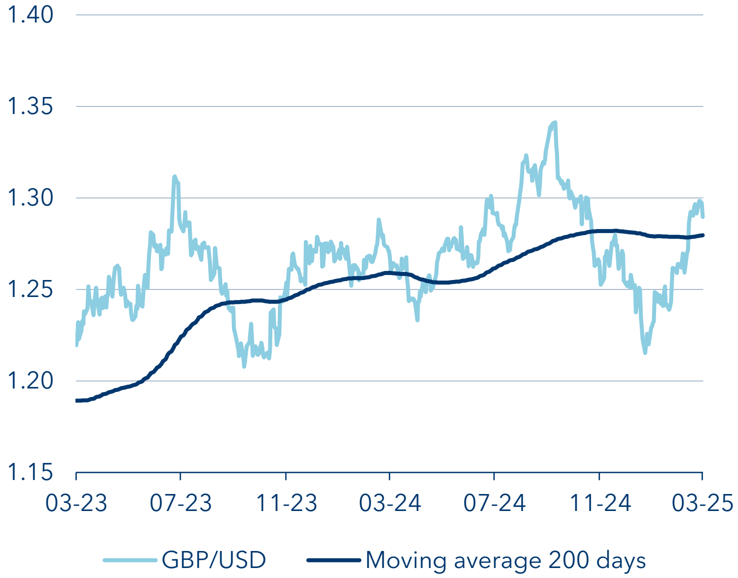


Technical view



Our View on **EUR/SEK**

10.50 – 11.60
Expected range
for 3 to 6 months

- High current account surplus and healthy public finances counter the weakness of the SEK
- Declining commitment of the ECB in the fight against persistently high inflation would weaken the euro

- Currently still unfavourable environment for high-beta currencies such as SEK
- Technical counter-reaction to be expected after the recent SEK appreciation

Impressive SEK rally

The crown flexed its muscles in February and appreciated sharply, without, however, falling outside our forecast range. Better growth prospects and higher European defence spending led to this price rally. Sweden is home to major arms companies. Against the euro, the crown gained around 5% between February and early March.

However, technical indicators are now pointing to a counter-reaction. It is therefore quite possible that the krona will initially move in the other direction. Should the European economy recover, we believe that the krona will benefit disproportionately. The koruna is riding in the slipstream of the high-beta currencies and is strong in phases of economic recovery. We are therefore adjusting our forecast range and also expect the koruna to reach higher levels against the euro.

Our View on **EUR/SEK**

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Expected range
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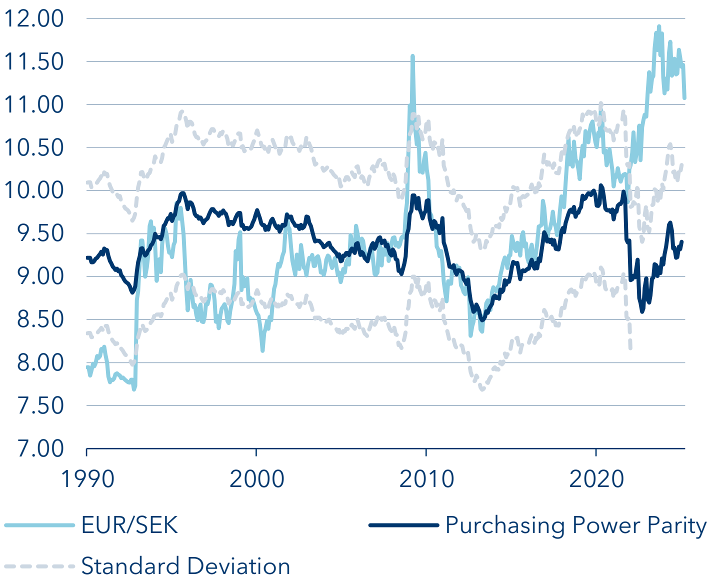
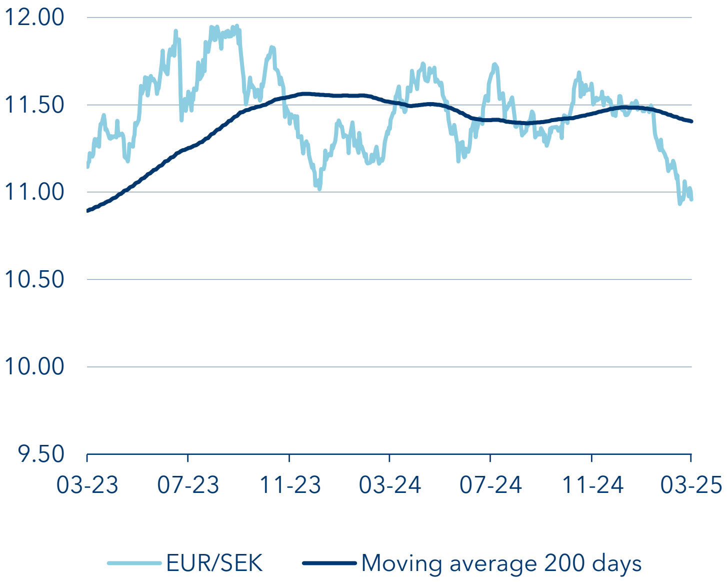


Technical view



Authors and Disclaimer

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On Purchasing Power Parity: The Purchasing Power Parity (PPP) describes that a product costs the same in two countries as long as it can be traded without restrictions and the transaction costs are negligible. The relative PPP used here is based on producer price indices and assumes that the prices of the products change by the same amount, taking into account the exchange rate, but that the price levels may differ.

Source: Bloomberg

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